

Message Text

CONFIDENTIAL

PAGE 01 STATE 199460

62

ORIGIN EA-09

INFO OCT-01 ISO-00 SS-15 SSO-00 EUR-12 EB-07 L-03 INR-07

INRE-00 OES-06 /060 R

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O R 112033Z AUG 76

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

INFO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 199460

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E.O. 11652: GDS

TAGS: ENGR, EFIN, ID, JA, US

SUBJECT: INDONESIAN-JAPAN LNG TRANSPORTATION

REF: STATE 195819

1. UNDER SECRETARY HABIB MET WITH JAPANESE AMBASSADOR TOGO AUGUST 10 TO DISCUSS INDONESIAN-JAPAN LNG TRANSPORTATION CONTROVERSY. HABIB INDICATED IMPORTANCE USG ATTACHES TO SATISFACTORY SOLUTION OF THE PROBLEM.

2. NOTING THAT HE WAS CERTAIN AMBASSADOR TOGO WAS ACQUAINTED WITH LNG TANKER PROBLEM, HABIB INDICATED THAT THERE HAD BEEN A COUPLE OF RECENT DEVELOPMENTS WHICH HE THOUGHT WAS IMPORTANT TO BRING TO PERSONAL ATTENTION OF AMBASSADOR TOGO FOR HIM TO CONVEY TO TOKYO. HABIB STATED
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PAGE 02 STATE 199460

WE WERE AWARE THAT GENERAL DYNAMICS HAD ENCOUNTERED CERTAIN

TECHNICAL PROBLEMS WHICH HAD AFFECTED THE TIMING OF THE COMPLETION OF THE TANKER PROJECT AND ITS COST. HOWEVER, GENERAL DYNAMICS HAD INDICATED TO US THAT IT WAS PREPARED TO OFFER SUBSTITUTE TANKERS WHICH WOULD BE AVAILABLE TO TRANSPORT THE GAS WHEN THE GAS WAS READY TO FLOW. SECONDLY, TO MEET JAPANESE CONCERNS REGARDING THE FINANCIAL SOLVENCY OF BURMAH TANKERS, GENERAL DYNAMICS HAD INDICATED A WILLINGNESS TO ACCEPT AN EQUITY POSITION IN BURMAH TANKERS

IN ORDER TO RESOLVE ANY QUESTION OF BURMAH TANKERS FINANCIAL ABILITY TO FULFILL THE SHIPPING CONTRACT.

3. HABIB STATED THAT IN VIEW OF THE FACT THE TANKER CONTRACT HAD COME UNDER JAPANESE PRESSURE, HE FELT IT WAS IMPORTANT THAT THOSE OFFICIALS WHO WERE DEALING WITH THIS PROBLEM IN TOKYO FULLY APPRECIATE THE IMPORTANCE THE USG ATTACHED TO THE FULFILLMENT OF THE CONTRACTS. GENERAL DYNAMICS WAS A MAJOR U.S. DEFENSE CONTRACTOR. CANCELLATION OF A PROJECT OF THIS MAGNITUDE COULD AFFECT THE COMPANY'S ABILITY TO FULFILL IMPORTANT DEFENSE WORK. IN ADDITION WE WERE CONCERNED THAT A RUPTURE OF THE CONTRACT MIGHT AFFECT THE FUTURE OF AN IMPORTANT SHIPYARD THEREBY INVOLVING A SERIOUS LOSS OF EMPLOYMENT LOCALLY AND OUR OVERALL DEFENSE CAPABILITIES. FURTHERMORE THE USG, THROUGH THE U.S. MARITIME ADMINISTRATION HAD A FINANCIAL INVESTMENT IN THE PROJECT OF APPROXIMATELY 180 MILLION DOLS IN GUARANTEES THAT COULD BE LOST IF THE CONTRACT WAS BROKEN.

4. HABIB INDICATED SITUATION WAS COMPLICATED BY AN ADDITIONAL IMPORTANT FACTOR: IF PERTAMINA WERE FORCED TO BREAK ITS CONTRACT WITH BURMAH TANKERS, LATTER WOULD SUE PERTAMINA AND PROBABLY JAPANESE END USERS. U.S. AND JAPAN WOULD BE FACED WITH AN INTERNATIONAL FINANCIAL DISPUTE WHICH WAS LIKELY TO STRETCH ON FOR YEARS. THE INDONESIANS WERE LIABLE TO BE VERY UNHAPPY NOT ONLY WITH THOSE WHO WERE SUING PERTAMINA BUT ALSO WITH THOSE JAPANESE WHOM THEY HELD RESPONSIBLE FOR THE PROBLEM.

5. HABIB STATED THAT IN THE BEGINNING OF THE LNG PROJECT
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PAGE 03 STATE 199460

JAPANESE SHIPYARDS WERE NOT INTERESTED IN BUILDING THE LNG TANKERS AND WERE THEREFORE UNWILLING TO UNDERTAKE SUCH COMMITMENTS. NOW, AS DIFFICULTIES EMERGED SOME JAPANESE WERE TRYING TO USE THESE DIFFICULTIES TO COME THROUGH THE BACK DOOR AND OBTAIN BUSINESS FOR THE JAPANESE YARDS.

6. IN SUMMARY, HABIB INDICATED THAT WE FULLY RECOGNIZED

THAT GENERAL DYNAMICS TECHNICAL PERFORMANCE HAD SO FAR BEEN LESS THAN FULLY SATISFACTORY. NEVERTHELESS THE COMPANY APPEARED TO HAVE TAKEN STEPS TO OVERCOME THOSE PROBLEMS. IT HAD MADE IMPORTANT GUARANTEES REGARDING PROVIDING SUBSTITUTE TANKERS AND BACKING UP BURMAH TANKERS WITH FINANCIAL SUPPORT. THESE FACTS SHOULD BE REASSURING TO THE JAPANESE GOVERNMENT AND PERMIT IT TO GO AHEAD WITH THE LOAN TO INDONESIA TO MEET THE COST OVERRUNS CONNECTION WITH THE LNG PROJECT.

7. IN RESPONSE, AMBASSADOR TOGO INDICATED THAT THE JAPANESE GOVERNMENT WAS PREPARED TO ASSIST INDONESIA IN THE LNG PROJECT. TRANSPORTATION, HOWEVER, WAS STILL CONSIDERED A PRIVATE MATTER IN WHICH, HE ADMITTED, THE JAPANESE GOVERNMENT WAS OF COURSE DEEPLY CONCERNED. THE MAIN CONCERN ON THE JAPANESE SIDE, TOGO SAID, WAS THE TIMING, SAFETY, AND REASONABLE FREIGHT RATES FOR LNG TRANSPORTATION. GENERAL DYNAMICS HAD NOT BEEN VERY RECEPTIVE TO THESE JAPANESE CONCERNS. ALTHOUGH THE PROBLEM WAS MAINLY BETWEEN PERTAMINA AND GENERAL DYNAMICS, THE JAPANESE FELT THEY COULD NOT SIT BY AND WAIT FOR A SATISFACTORY SOLUTION.

8. TOGO SAID THAT IT WAS HIS UNDERSTANDING THAT THESE TECHNICAL PROBLEMS WOULD BE DISCUSSED BY THE VARIOUS PARTIES NEXT WEEK IN TOKYO. HABIB REPLIED THAT IT WAS IN EXPECTATION OF THIS MEETING THAT HE FELT IT WAS NECESSARY TO INVOLVE AMBASSADOR TOGO PERSONALLY IN THE PROBLEM. WE FELT IT WAS IMPORTANT THAT THE JAPANESE UNDERSTOOD THE IMPORTANCE WHICH THE USG ATTACHED TO SATISFACTORY SOLUTION OF THIS PROBLEM. WE WISHED TO AVOID A SITUATION IN WHICH TECHNICAL FACTORS ARE USED TO BREAK UP THE AGREEMENT. WE DID NOT WANT THIS TO BE CONFIDENTIAL

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PAGE 04 STATE 199460

HANDLED CASUALLY.

9. TOGO ALSO QUESTIONED IN GENERAL TERMS WHETHER A LARGE COMPANY LIKE GENERAL DYNAMICS WOULD BE IN SERIOUS FINANCIAL DIFFICULTIES IF THE CONTRACT WAS BROKEN. HABIB REPLIED THAT IN ADDITION TO THE 180 MILLION DOLLAR GUARANTEE BY MARAD, GENERAL DYNAMICS HAD INVESTED HUNDREDS OF MILLIONS OF DOLS IN THE PROJECT. MAIN POINT, HOWEVER, WAS THAT THERE WAS NOW A BASIS FOR REACHING A SETTLEMENT. TOGO PROMISES TO REPORT TO HIS GOVERNMENT. ROBINSON

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DISPUTES, MARINE TRANSPORTATION, LPG, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 AUG 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE199460
Document Source: CORE
Document Unique ID: 00
Drafter: DKENNEY:LRR
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760309-0746
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760863/aaaaccxv.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 76 STATE 195819
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2004 by buchant0>; APPROVED <08 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INDONESIAN-JAPAN LNG TRANSPORTATION
TAGS: ENRG, EFIN, ID, JA, US, (HABIB, PHILIP), (TOGO)
To: JAKARTA TOKYO LONDON
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006